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December 16, 2004

The Honorable Town Commissioners
Town of Centreville
State of Maryland

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, of the Town of Centreville, Maryland, as of and for the year ended June 30, 2004, which collectively comprise the Town's basic financial statements as listed in the foregoing Table of Contents. These financial statements are the responsibility of the Town of Centreville's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Centreville, Maryland as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note A to the financial statements, the Town implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, during the year ended June 30, 2004.

The Honorable Town Commissioners
Town of Centreville
December 16, 2004
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In accordance with Government Auditing Standards, we have also issued our report dated December 16, 2004 on our consideration of the Town of Centreville, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 5-15 and budgetary comparison information on pages 39-41 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Centreville, Maryland's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BEATTY, SATCHELL & COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANTS

December 16, 2004

The Honorable Town Commissioners
Town of Centreville
State of Maryland

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the Town of Centreville, Maryland (the Town), as of and for the year ended June 30, 2004, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 16, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Town's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as findings #1 through #4 in the addendum.

The Honorable Town Commissioners
Town of Centreville
December 16, 2004
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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider finding #1 to be a material weakness.

This report is intended solely for the information and use of the Town, management, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

BEATTY, SATCHELL & COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANTS

Town of Centreville, Maryland

Management's Discussion and Analysis

This section of the Town of Centreville's annual financial report presents our discussion and analysis of the Town's financial performance during the fiscal year ended June 30, 2004. Readers are encouraged to consider the information presented here in conjunction with the financial statements and notes to the financial statements (which immediately follow this discussion). The implementation of the new financial reporting requirements of GASB Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* makes the Town's June 30, 2004 Financial Statements significantly different than those of previous years. New sections include this Management's Discussion and Analysis, the Government-wide Statement of Net Assets, the Government-wide Statement of Activities, the concept of major fund reporting, and the reporting of infrastructure capital assets and long term debt liabilities in the governmental activities. These concepts are explained throughout this discussion and analysis.

FINANCIAL HIGHLIGHTS

- The Town's total net assets were \$17.7 million at June 30, 2004.
- During the year, the Town's expenses after grants and fees for services were \$742 thousand, and revenue generated from taxes and other sources for governmental programs was \$1,209 million.
- The total cost of the Town's programs was \$1.530 million, and no new programs were added this year.
- In the Town's business-type activities, revenues were \$2.1 million more than the \$1.1 million of expenses. One-time grants to build the waste water treatment plant of \$2.3 million are included in this year's revenues. The plant was not placed into operation until August 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – *management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and an additional section that presents *combining statements* for non-major governmental funds and internal service funds. The basic financial statements include two kinds of statements that present different views of the Town:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the Town's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Town government, reporting the Town's operations *in more detail* than the government-wide statements.
 - The *governmental funds* statements tell how general government services such as public safety were financed in the *short term* as well as what remains for future spending.
 - *Proprietary funds* statements offer *short-term* and *long-term* financial information about the activities the government operates *like businesses*, such as the water and sewer system.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. In addition to the required elements, we have included a section with combining statements that provides details about our non-major governmental funds, each of which is added together and presented in single columns in the basic financial statements. The remainder of this overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Financial Statements

The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the government's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Town's *net assets* and how they have changed. Net assets- the difference between the Town's assets and liabilities- is one way to measure the Town's financial health or *position*. Over time, increases or decreases in the Town's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Town you need to consider additional non-financial factors such as changes in the Town's property tax base and the condition of the Town's roads.

In the government-wide financial statements, the Town's activities are divided into two categories:

- *Governmental activities*- Most of the Town's basic services are included here, such as the police, fire, public works, and parks departments and general administration. Property taxes and state and federal grants finance most of these activities.
- *Business-type activities*- The Town charges fees to customers to help cover the costs of certain services it provides. The Town's water and sewer system are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the Town's *funds*, focusing on its most significant or "major" funds- not the Town as a whole. Funds are accounting devices that the Town uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The Town Council establishes other funds to control and manage money for particular purposes (like the Investment Funds) or to show that is properly using certain taxes and grants.

The Town has three kinds of funds:

- *Governmental funds*- Most of the Town's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets can be readily converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a short-term view that helps you determine where there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Non-Governmental funds*- The Town has an investment fund that is restricted by the Town Council and Charter.
- *Proprietary funds*- Services for which the Town charges customers a fee are generally reported in the proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. In fact, the Town's *enterprise funds* are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Net assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's *combined* net assets were \$17.7 million at June 30, 2004. Looking at the net assets and net expenses of governmental and business-type activities separately, however, two very different stories emerge. The following table reflects the condensed Government-Wide Statement of Net Assets:

Table A-1
Local Net Assets
(in thousands of dollars)

	Government and Non-Government Activities	Business-Type Activities	Total
Current and Other Assets	\$ 6,032	\$ 3,190	\$ 9,222
Capital Assets	<u>1,460</u>	<u>11,225</u>	<u>12,685</u>
Total Assets	<u>\$ 7,492</u>	<u>\$ 14,415</u>	<u>\$ 21,907</u>
Long-Term Debt Outstanding	\$ 41	\$ 2,310	\$ 2,351
Other Liabilities	<u>126</u>	<u>1,700</u>	<u>1,826</u>
Total Liabilities	<u>\$ 167</u>	<u>\$ 4,010</u>	<u>\$ 4,177</u>
Invested in Capital Assets, Net of Related Debt	\$ 1,461	\$ 1,238	\$ 2,699
Restricted	3,732	-	3,732
Unrestricted	<u>2,132</u>	<u>9,167</u>	<u>11,299</u>
Total Net Assets	<u>\$ 7,325</u>	<u>\$ 10,405</u>	<u>\$ 17,730</u>

Net assets for the governmental activities increased in the current year by \$467 thousand primarily due to the collection of impact fees and increase in real property taxes. Net assets for the business-type activities increased by \$3,402 thousand due to grants for the new plant of \$2,280 and an operating excess of \$1,122 thousand.

Changes in net assets

Figure 1A- Sources of Revenue for Fiscal Year 2004

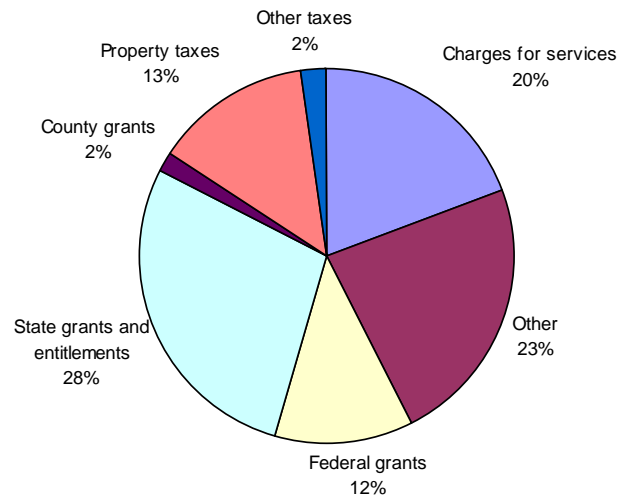


Figure 1B- Functional Expenses for Fiscal Year 2004

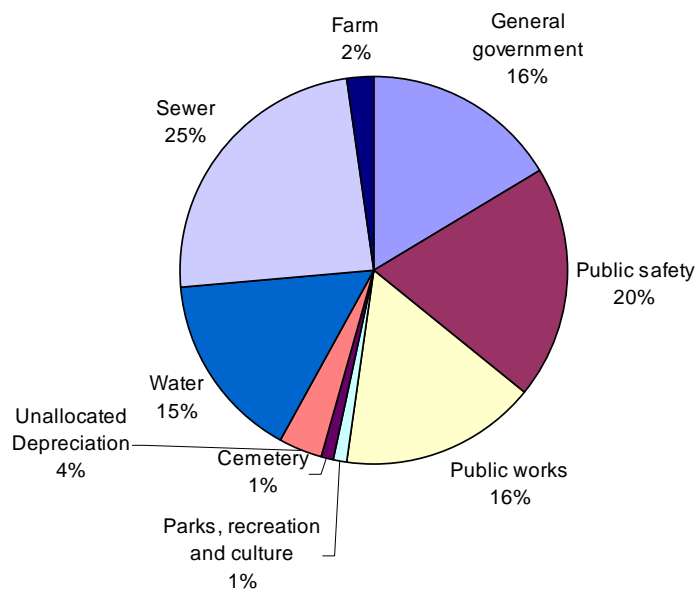


Table A-2
Changes in Local Net Assets
(in thousands of dollars)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Program Revenues:			
Charges for services	\$ 360	\$ 909	\$ 1,269
Federal grants	-	775	775
State grants and entitlements	318	1,505	1,823
County grants	110	-	110
General Revenues:			
Property taxes	874	-	874
Other taxes	152	-	152
Other	<u>183</u>	<u>1,319</u>	<u>1,502</u>
Total Revenues	<u>\$ 1,997</u>	<u>\$ 4,508</u>	<u>\$ 6,505</u>
Expenses:			
General government	\$ 432	\$ -	\$ 432
Public safety	510	-	510
Public works	433	-	433
Parks, recreation and culture	30	-	30
Cemetery	31	-	31
Unallocated Depreciation	94	-	94
Water	-	407	407
Sewer	-	643	643
Farm	<u>-</u>	<u>56</u>	<u>56</u>
Total Expenses	<u>\$ 1,530</u>	<u>\$ 1,106</u>	<u>\$ 2,636</u>
Increase in Net Assets	\$ 467	\$ 3,402	\$ 3,869
Net Assets – Beginning	<u>6,858</u>	<u>7,003</u>	<u>13,861</u>
Net Assets – Ending	<u>\$ 7,325</u>	<u>\$ 10,405</u>	<u>\$ 17,730</u>

Governmental Activities

Revenue from the Town's governmental activities was \$1,997 thousand while total expenses (excluding depreciation) were \$1,435 thousand. The loss from asset disposal did not consume current revenue or cash but represented an adjustment to beginning net assets of the Town. Table A-3 presents the cost of each of the Town's five largest services – general government, public safety, public works, parks and recreation, and cemetery - as well as each service's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the Town's taxpayers by each of these services.

- The cost of all governmental activities this year was \$1,435 thousand. Some of that cost was financed by:
 - Those who directly benefited from the programs (\$360 thousand), or
 - Other governments and organizations that subsidized certain programs with grants and contributions (\$428 thousand).
- The Town financed the remaining \$647 thousand "public benefit" portion of governmental activities with \$1,209 thousand in taxes and with other revenue such as impact fees, interest, and unrestricted state aid.

Table A-3
Net Cost of Centreville's Government Activities
 (in thousands on dollars)

	<u>Total Cost of Services</u>	<u>Net Cost (Surplus) of Services</u>
General government	\$ 431	\$ (126)
Police department	510	379
Public works	433	366
Parks and recreation	30	30
Cemetery	<u>31</u>	<u>(2)</u>
Total	<u>\$ 1,435</u>	<u>\$ 647</u>

Business-type Activities

Revenues of the Town's business-type activities were \$4,508 thousand and expenses were \$1,106 thousand. (Refer to Table A-2.) Factors contributing to these results included:

- The cost of sewer, water and farm activities were within the budgets established for 2004. While revenue from sewer, water and farm activities was 200% more than expenses.
- The Town received State and Federal grants in the current year to finance the building of the new waste water treatment plant that was not placed into service until FY 2005. Surplus funds and grants will be consumed in future years by interest expenses on the debt incurred to finance the plant as well as depreciation on the plant.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As the Town completed this year, its governmental funds reported combined fund balances of \$7,325 thousand. Included in this year's net change in fund balances are:

- Building permits revenue of \$130 thousand
- Property tax revenue of \$874 thousand
- Planning and zoning expenditures of \$156 thousand
- Capital outlay expenditures of \$616 thousand
- Decrease in the fair market value of investments of \$134 thousand, which is offset by investment earnings of \$151 thousand.

**Town of Centreville
Revenues Classified by Source
General Fund
For The Year Ended June 30, 2004**

	<u>Totals</u>	<u>Percent Of Total</u>
Revenues		
General property taxes	\$ 873,981	43.9%
Other local taxes	152,186	7.7%
Permits and licenses	149,990	7.5%
Charges for services	307,016	15.4%
Intergovernmental	428,144	21.5%
Miscellaneous	<u>80,082</u>	<u>4.0%</u>
Total Revenues	<u>\$ 1,991,399</u>	<u>100.0%</u>

**Town of Centreville
Expenditures by Function
Governmental Funds
For The Year Ended June 30, 2004**

	<u>Totals</u>	<u>Percent Of Total</u>
Expenditures		
Current operations:		
General governmental administration	\$ 425,322	20.7%
Public safety	510,185	24.8%
Public works	432,994	21.1%
Parks and recreation	28,818	1.4%
Public cemetery	31,736	1.5%
Capital outlay	615,779	29.9%
Debt service:		
Principal	10,196	0.5%
Interest	<u>1,665</u>	<u>0.1%</u>
Total Expenditures	<u>\$ 2,056,695</u>	<u>100.0%</u>

General Fund Budgetary Highlights

Over the course of the year, the Town Council did not revise the Town budget. However, in previous years budget amendments have occurred that fall into two categories:

- Amendments and supplemental appropriations approved shortly after the beginning of the year to reflect the actual beginning account balances (correcting the estimated amounts in the budget adopted in the previous year).
- Increases in appropriations to prevent budget overruns.

Given that no amendments were made in 2004, actual expenditures were \$767 thousand above the original budget amounts, mainly due to capital outlay of \$616,000. The most significant contributor to this variance was a street construction project that was not included in the original budget. On the other hand, resources available for appropriations were \$722 thousand above the final budgeted amount.

Revenues from real property and local income taxes were \$199 thousand more than budgeted. Additionally, building permits revenue was \$108 thousand over budget, and charges for general government services exceed budget by \$227 thousand.

CAPITAL ASSET AND DEBT ADMINISTRATION**Capital Assets**

The Town's total investment in capital assets, including construction in progress, for its governmental and business type activities as of June 30, 2004, amounts to \$12,687 thousand (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, recreation and park facilities, utility properties and facilities, as well as other typical capital items.

This year's major capital additions included:

- Construction project for the Waste Water Treatment Plant
- Replacement of infrastructure assets- streets

Table A-4
Town of Centreville's Capital Assets
(in thousands of dollars)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land	\$ 139	\$ 1,161	\$ 1,300
Buildings	181	714	895
Land improvements	45	-	45
Infrastructure	775	2,012	2,787
Furniture, fixtures and equipment	320	39	359
Construction in progress	<u>-</u>	<u>7,301</u>	<u>7,301</u>
Total	<u>\$ 1,460</u>	<u>\$ 11,227</u>	<u>\$ 12,687</u>

Long-term Debt

At year-end, the Town had \$2,603 thousand in loans outstanding as shown in Table A-5. More detailed information about the Town's long-term liabilities is presented in Note I to the financial statements.

New debt resulted mainly from loans from USDA and MD DOE for the construction of the waste water treatment plant.

Table A-5
Town of Centreville's Outstanding Debt
(in thousands of dollars)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Bank loans	\$ 41	\$ -	\$ 41
Loans from USDA	-	1,058	1,058
Loans from MD DOE	<u>-</u>	<u>1,504</u>	<u>1,504</u>
Total	<u>\$ 41</u>	<u>\$ 2,562</u>	<u>\$ 2,603</u>

MAINTAINING THE CONDITIONS OF THE TOWN'S INFRASTRUCTURE

GASB Statement Number 34 also allows the Town to report depreciation expense on infrastructure assets or to adopt the modified approach, which allows depreciation expense to be ignored if expenditures that are necessary to maintain infrastructure assets to an objectively determined level of service are made. Primarily due to the cost versus benefit concept and consistent with what appears to be an overwhelming "industry standard" being adopted by governmental entities subject to GASB Statement Number 34, the Town has adopted the reporting of depreciation expense.

SUBSEQUENT ITEMS FOR FUTURE FINANCIAL STATEMENTS

Operation of the new Wastewater Treatment Plant

The Town is currently in the final stages of constructing a state of the art wastewater treatment plant, including spray irrigation for wastewater disposal. The new plant is permitted for 500,000 gallons per day of flow and will provide vastly improved wastewater treatment. The operation of the new facility will require higher levels of expertise and certification than the previously operated facility. This higher level of management, combined with widespread public concern, has led the Town Council to provide for contract operations of the new facility. While the long term plan for the facility will be to provide for its operation and maintenance using Town personnel, it was determined that establishing credibility and accountability through an outside entity was an immediate priority. The Town will begin to develop plans to transition to self-supported operations, based on the experience gained in the near term.

MDE Consent Order

The Town is currently under a Consent Order from the Maryland Department of the Environment (MDE) related to the operation of its wastewater treatment plant. The Consent Order includes a moratorium on the issuance of new building permits that require additional water and sewer capacity. Executed in early May, 2004, the Order required the Town to develop a Capacity Management Plan describing how available water and sewer capacity was to be awarded to prospective projects. The moratorium has had a direct effect on the anticipated revenue from building permits, but more significantly, loss of water and sewer allocation fees. A lifting of the Consent Order is contingent upon MDE's approval of the Capacity Management Plan submitted in October 2004, and satisfactory performance of the new wastewater plant and related spray fields. Given current schedules, it may be reasonable to expect a six-month loss of revenue for FY05 from building permits and related water and sewer allocation fees.

Growth

As we consider a longer-range perspective, there are grave concerns about how the Town will grow in the future. Growth related issues focus on having adequate infrastructure and maintaining the quality of life deemed so valuable in Centreville. Given the two large subdivisions that will add approximately 650 additional new homes to the Town and related impacts to traffic, water and sewer facilities, careful consideration is being given to the issue of growth. The Comprehensive Plan for Centreville is due to be updated during the current fiscal year 2004-2005 and should provide more clarity for Centreville's future.

Personnel Complaint

Last year, the Town eliminated two positions by deciding to hire independent contractors to operate the wastewater treatment facility. This decision was based in part on the need for a properly licensed operator for the Town's new waste water treatment plant. It was also based on other operating efficiencies that have yet to be realized. A former employee has filed a complaint with the United States Department of Justice. This complaint is currently in the administrative appeal process. This issue is shared in the spirit of fully disclosing ongoing processes which may have future impacts.

Inflow and Infiltration

Wastewater treatment plant flows are directly affected by the additional unwanted volumes that may come from inappropriate connections to the sanitary sewer (inflow) or the more insidious seepage into the system from groundwater influences (infiltration). These flows directly impact the Town's capacity to treat wastewater by adding additional volume to be treated. Eliminating these undesirable flows into the treatment plant provides additional capacity for the Town's users. The Town of Centreville has commissioned an Inflow and Infiltration (I&I) Study to determine potential external sources of flow and to recommend solutions to these problems. The results may point to capital expenditures required to eliminate unwanted flow. These may prove to be a cost effective means by which to add capacity to wastewater infrastructure.

Arsenic Treatment

The US EPA has lowered the minimum contaminant levels for arsenic in drinking water from 50 to 10 ppm, effective January 2006. Municipalities with arsenic levels above the new standard, including Centreville, will be required to treat their water supply to abate the higher levels. The Town is now planning to address this regulatory requirement by adding treatment systems to two primary wells supplying drinking water to the Town prior to the January 2006 deadline.

Water Storage

Centreville's first elevated water storage structure is over 35 years old and approaching the end of its expected useful life. Consideration needs to be given to replacing this structure as part of the ongoing process to maintain utility infrastructure. In addition, as population grows, additional elevated water storage may be necessary to maintain an adequate supply and pressure of drinking water to Centreville users. This issue warrants additional attention and will impact future capital expenditures.

Roads

Long term capital planning includes transportation networks and facilities. As population continues to grow in and around Centreville, increasing pressure is placed upon the condition of our streets and roads. While there have been certain State programs in the past which may have supported the maintenance or upgrade of streets, recent fiscal appropriations have fallen short in providing needed capital for these projects. In addition to the State highways in town, there are a number of major thoroughfares used by an increasing number of area residents, accelerating maintenance requirements. Maintenance of this transportation must be considered as part of long term capital planning.

Other

Unlike this year of implementation for GASB Statement No. 34, subsequent years' financial statements will allow a greater amount of comparisons between periods.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Town of Centreville, 101 Lawyers Row, Centreville, MD 21617.

TOWN OF CENTREVILLE, MARYLAND
STATEMENT OF NET ASSETS
FOR YEAR ENDED JUNE 30, 2004

	PRIMARY GOVERNMENT		
	GOVERNMENTAL	BUSINESS-TYPE	
	ACTIVITIES	ACTIVITIES	TOTAL
<u>ASSETS</u>			
<i>Current assets</i>			
Cash and cash equivalents	\$ 1,561,611	\$ 2,891,805	\$ 4,453,416
Investments	3,830,402	116,997	3,947,399
Receivables:			
Taxes (net)	249,719	111,280	360,999
Accounts	48,102	196,933	245,035
Interest	32,260	-	32,260
Notes receivable	183,308	-	183,308
Due from other funds	<u>127,086</u>	<u>(127,086)</u>	<u>-</u>
<i>Total current assets</i>	<u>6,032,488</u>	<u>3,189,929</u>	<u>9,222,417</u>
<i>Noncurrent assets</i>			
Capital assets, net	<u>1,460,638</u>	<u>11,225,690</u>	<u>12,686,328</u>
TOTAL ASSETS	<u>\$ 7,493,126</u>	<u>\$ 14,415,619</u>	<u>\$ 21,908,745</u>
<u>LIABILITIES</u>			
<i>Current liabilities</i>			
Accounts payable	\$ 90,490	\$ 1,447,094	\$ 1,537,584
Accrued payroll	26,765	1,392	28,157
Current portion of long-term debt	<u>9,641</u>	<u>251,443</u>	<u>261,084</u>
<i>Total current liabilities</i>	<u>126,896</u>	<u>1,699,929</u>	<u>1,826,825</u>
<i>Noncurrent liabilities</i>			
Long term debt	31,074	2,310,779	2,341,853
Non-current compensated absences	<u>9,611</u>	<u>-</u>	<u>9,611</u>
<i>Total Noncurrent Liabilities</i>	<u>40,685</u>	<u>2,310,779</u>	<u>2,351,464</u>
TOTAL LIABILITIES	<u>167,581</u>	<u>4,010,708</u>	<u>4,178,289</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	1,460,638	1,237,719	2,698,357
Restricted for fund purposes	3,732,767	-	3,732,767
Unrestricted	<u>2,132,140</u>	<u>9,167,192</u>	<u>11,299,332</u>
<i>Total Net Assets</i>	<u>7,325,545</u>	<u>10,404,911</u>	<u>17,730,456</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,493,126</u>	<u>\$ 14,415,619</u>	<u>\$ 21,908,745</u>

The Notes to Financial Statements
are an Integral Part of this Statement

TOWN OF CENTREVILLE MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

		PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS PRIMARY GOVERNMENT		
			OPERATING	CAPITAL			
		CHARGES FOR	GRANTS AND	GRANTS AND	GOVERNMENTAL	BUSINESS-TYPE	
FUNCTIONS/PROGRAMS	EXPENSES	SERVICES	CONTRIBUTIONS	CONTRIBUTIONS	ACTIVITIES	ACTIVITIES	TOTAL
Governmental activities:							
General government administration	\$ 431,638	\$ 259,430	\$ 299,358	\$ -	\$ 127,150	\$ -	\$ 127,150
Public safety	510,187	2,855	128,785	-	(378,547)	-	(378,547)
Public works	432,994	65,118	-	-	(367,876)	-	(367,876)
Parks, recreation and cultural	30,483	-	-	-	(30,483)	-	(30,483)
Cemetery	30,881	32,512	-	-	1,631	-	1,631
Depreciation – Unallocated	93,946	-	-	-	(93,946)	-	(93,946)
<i>Total governmental activities</i>	<u>1,530,129</u>	<u>359,915</u>	<u>428,143</u>	<u>-</u>	<u>(742,071)</u>	<u>-</u>	<u>(742,071)</u>
Business-type activities:							
Water	406,620	378,968	2,279,775	-	-	2,252,123	2,252,123
Sewer	643,353	467,379	-	-	-	(175,974)	(175,974)
Farm	56,245	62,946	-	-	-	6,701	6,701
<i>Total business-type activities</i>	<u>1,106,218</u>	<u>909,293</u>	<u>2,279,775</u>	<u>-</u>	<u>-</u>	<u>2,082,850</u>	<u>2,082,850</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 2,636,347</u>	<u>\$ 1,269,208</u>	<u>\$ 2,707,918</u>	<u>\$ -</u>	<u>(742,071)</u>	<u>2,082,850</u>	<u>1,340,779</u>
			General Revenues:				
			Real property taxes		813,998	-	813,998
			Personal property taxes		50,841	-	50,841
			Local income taxes		152,186	-	152,186
			Penalties and interest – delinquent taxes		9,142	-	9,142
			Impact Fees		153,013	1,311,655	1,464,668
			Gains, losses, change in fair market value		(133,884)	-	(133,884)
			Investment earnings		150,501	6,603	157,104
			Miscellaneous		13,518	997	14,515
			<i>Total general revenues</i>		<u>1,209,315</u>	<u>1,319,255</u>	<u>2,528,570</u>
			<i>Change in net assets</i>		467,244	3,402,105	3,869,349
			NET ASSETS – BEGINNING		<u>6,858,301</u>	<u>7,002,806</u>	<u>13,861,107</u>
			NET ASSETS – ENDING		<u>\$ 7,325,545</u>	<u>\$ 10,404,911</u>	<u>\$ 17,730,456</u>

The Notes to the Financial Statements
are an Integral Part of this Statement

TOWN OF CENTREVILLE, MARYLAND
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>GENERAL FUND</u>	<u>INVESTMENT FUND</u>	<u>TOTALS MEMORANDUM ONLY</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,473,741	\$ 87,870	\$ 1,561,611
Investments	89,702	3,740,700	3,830,402
Receivables:			
Taxes, net	249,719	-	249,719
Accounts	48,102	-	48,102
Interest	-	32,260	32,260
Notes receivable	183,308	-	183,308
Due from other funds	<u>255,149</u>	<u>-</u>	<u>255,149</u>
<i>TOTAL ASSETS</i>	<u>\$ 2,299,721</u>	<u>\$ 3,860,830</u>	<u>\$ 6,160,551</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 90,490	\$ -	\$ 90,490
Accrued payroll	26,765	-	26,765
Due to other funds	<u>-</u>	<u>128,063</u>	<u>128,063</u>
<i>TOTAL LIABILITIES</i>	<u>117,255</u>	<u>128,063</u>	<u>245,318</u>
<u>FUND EQUITY</u>			
Fund Balances:			
Reserved for fund purposes	366,270	3,732,767	4,099,037
Unreserved	<u>1,816,196</u>	<u>-</u>	<u>1,816,196</u>
<i>TOTAL FUND EQUITY</i>	<u>2,182,466</u>	<u>3,732,767</u>	<u>5,915,233</u>
<i>TOTAL LIABILITIES AND FUND EQUITY</i>	<u>\$ 2,299,721</u>	<u>\$ 3,860,830</u>	<u>\$ 6,160,551</u>

The Notes to Financial Statements
are an Integral Part of this Statement

TOWN OF CENTREVILLE, MARYLAND
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

TOTAL GOVERNMENTAL FUND BALANCES \$ 5,915,233

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in the governmental activities are
are not financial resources and, therefore, are not
reported in the governmental funds:

Cost of assets	3,828,311
Less: Accumulated Depreciation	<u>(2,367,673)</u>

Long-term liabilities are not due and payable in the
current period and therefore are not reported as
liabilities in the funds. Long-term liabilities at year
end consists of:

Note Payable	\$ 40,715
Compensated Absences	<u>9,611</u>

<i>Total Long-Term Liabilities</i>	<u>(50,326)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 7,325,545

TOWN OF CENTREVILLE, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	<u>GENERAL FUND</u>	<u>INVESTMENT FUND</u>	<u>TOTALS MEMORANDUM ONLY</u>
Revenues			
General property taxes	\$ 873,981	\$ -	\$ 873,981
Other local taxes	152,186	-	152,186
Permits and licenses	149,990	-	149,990
Charges for services	307,016	-	307,016
Intergovernmental	428,144	-	428,144
Miscellaneous	<u>80,082</u>	<u>5,975</u>	<u>86,057</u>
<i>Total Revenues</i>	<u>1,991,399</u>	<u>\$ 5,975</u>	<u>\$ 1,997,374</u>
Expenditures			
Current:			
General government and administration	425,322	-	425,322
Public safety	510,185	-	510,185
Public works	432,994	-	432,994
Parks and recreation	28,818	-	28,818
Public cemetery	31,736	-	31,736
Capital outlay	615,779	-	615,779
Investment fees	-	4,726	4,726
Debt service:			
Principal	10,196	-	10,196
Interest	<u>1,665</u>	<u>-</u>	<u>1,665</u>
<i>Total Expenditures</i>	<u>2,056,695</u>	<u>4,726</u>	<u>2,061,421</u>
<i>Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)</i>	(65,296)	1,249	(64,047)
Other Financing Sources (Uses)			
Operating transfers	<u>116,786</u>	<u>(116,786)</u>	<u>-</u>
<i>Excess (Deficiency) of Revenues and Other Financial Sources Over Expenditures</i>	51,490	(115,537)	(64,047)
FUND BALANCES AT BEGINNING OF YEAR (AS RESTATED)	<u>2,130,976</u>	<u>3,848,304</u>	<u>5,979,280</u>
FUND BALANCES AT END OF YEAR	<u>\$ 2,182,466</u>	<u>\$ 3,732,767</u>	<u>\$ 5,915,233</u>

The Notes to Financial Statements
are an Integral Part of this Statement

TOWN OF CENTREVILLE, MARYLAND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ (64,047)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets (\$615,041) is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation (\$93,946) in the current period. 521,095

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 10,196

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 467,244

TOWN OF CENTREVILLE, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS
JUNE 30, 2004

ASSETS

Current assets

Cash and cash equivalents	\$ 2,891,805
Investments	116,997
Receivables:	
Taxes (net)	111,280
Accounts	<u>196,933</u>
<i>Total current assets</i>	3,317,015

Noncurrent assets

Capital assets, net	<u>11,225,690</u>
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<i>TOTAL ASSETS</i>	<u>\$ 14,542,705</u>
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LIABILITIES

Current liabilities

Accounts payable	\$ 1,447,094
Accrued payroll	1,392
Due to other funds	127,086
Current portion of long-term debt	<u>251,443</u>
<i>Total current liabilities</i>	<u>1,827,015</u>

Noncurrent liabilities

Long-term debt	<u>2,310,779</u>
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<i>TOTAL LIABILITIES</i>	<u>4,137,794</u>
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NET ASSETS

Invested in capital assets, net of related debt	1,237,719
Unrestricted	<u>9,167,192</u>
<i>Total net assets</i>	<u>10,404,911</u>
<i>TOTAL LIABILITIES AND NET ASSETS</i>	<u>\$ 14,542,705</u>

TOWN OF CENTREVILLE, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

Operating revenues	\$ 909,293
Operating expenses	<u>721,302</u>
<i>Operating income</i>	<u>187,991</u>
Non-operating revenues and expenses	
Revenue	3,599,030
Expense	<u>384,916</u>
<i>Net non-operating revenues</i>	<u>3,214,114</u>
<i>Change in net assets</i>	3,402,105
NET ASSETS AT BEGINNING OF YEAR	<u>7,002,806</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 10,404,911</u></u>

TOWN OF CENTREVILLE, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

Cash flows from operating activities:

Cash received from customers	\$ 883,740
Cash received from grantors	2,279,775
Cash received from impact fees	1,311,655
Miscellaneous receipts	63,943
Cash paid for supplies, services, etc.	(425,804)
Cash paid for employees	<u>(140,254)</u>
<i>Net cash provided by operating activities</i>	<u>3,973,055</u>

Cash flows from investing activities:

Interest on cash deposits and investments	<u>6,602</u>
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Cash flows from capital and related financing activities:

Purchases/construction of capital assets	(4,594,890)
Interest paid on debt	(54,853)
Principal paid on debt	(181,822)
Proceeds from loans	<u>2,059,980</u>
<i>Net cash used by financing activities</i>	<u>(2,771,585)</u>

Cash flows from non-capital financing activities:

Transfers to other funds	<u>5,862</u>
<i>Net increases in cash and cash equivalents</i>	1,213,934

Cash and cash equivalents at beginning of year1,794,868**Cash and cash equivalents at end of year**\$ 3,008,802**Reconciliation of operating income to net cash provided by operating activities:**

Operating income	\$ 187,991
Cash receipts not otherwise classified	3,197,296
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	101,436
Bad Debt	(16,623)
Changes in operating assets and liabilities:	
Receivables, net	(38,291)
Customer and security deposits	(15,725)
Payables and accrued expenses	<u>556,971</u>
<i>Net cash provided by operating activities</i>	<u>\$ 3,973,055</u>

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE A – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Centreville, Maryland (the “Town”) operates under a Council-Manager form of government. The Town’s major operations include police protection, parks and recreation, public works, and general administrative services. In addition, the Town owns and operates a water and sewer system. The Town’s financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (“GASB”) as well as Financial Accounting Standards Board (FASB) pronouncements unless the FASB pronouncements conflict with or contradict GASB pronouncements. The significant accounting policies of the Town are summarized as follows:

Reporting Entity

The financial statements of the Town include all funds, account groups, agencies, boards, commissions, etc. that are controlled by, or dependent on, the elected Commissioners. Control and dependence are determined by considering budget adoption, taxing authority, funding, guarantee of debt, ownership of assets and appointment of the respective governing board.

Government-Wide and Fund Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the governmental funds and proprietary funds. The major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Preparation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF CENTREVILLE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

**NOTE A – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued**

Measurement Focus, Basis of Accounting, and Financial Statement Preparation - Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions to the general rule include principal and interest on general long-term debt which are recognized when due.

Property taxes, other local taxes, shared expenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measureable and available only when the government receives cash.

The Town's reporting entity applied all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 have been applied, unless those pronouncements conflict with or contradict GASB pronouncement, in which case, GASB prevails.

The government reported two major governmental funds in 2004: the General Fund and the Investment Funds. The General Fund is the government's primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund. The Investment Fund is a permanent fund in that only the fund's investment earnings may be used to support the government's programs. The Investment Fund's principal is legally restricted from being used unless approved by the citizens of the government.

The government has only one Proprietary Fund in 2004: the Water and Sewer Enterprise Fund. The fund accounts for the Town's water and sewer operations.

For the fiscal year ended June 30, 2004, the Town implemented the financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. As a result, a new financial reporting format and presentation was implemented. Significant changes in the statement included, for the first time, a Management Discussion and Analysis (MD&A) section providing an analysis of the Town's overall financial position and results of operations, and financial statements prepared using full accrual accounting, including depreciation on capital assets. There is a change in the fund financial statements to focus on major funds. These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Town elected to implement the general provisions of the statement in the current year and has retroactively reported infrastructure in fiscal year June 30, 2004.

-Continued-

TOWN OF CENTREVILLE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

**NOTE A – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
Continued**

Measurement Focus, Basis of Accounting, and Financial Statement Preparation - Continued

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported generally as revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund are charges to customers for services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Town are reported at fair value.

Receivables and Payables

Receivables are stated at cost with an allowance for doubtful accounts when in the opinion of the Town's management, collection is doubtful. Due from other funds and governments are stated at cost.

Development fees receivable include amounts due from third parties for subdivision review fees, allocation fees, contract services, and other related fees. These are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for uncollectible taxes amounted to \$16,624 at June 30, 2004 for the Enterprise Fund.

TOWN OF CENTREVILLE, MARYLAND**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2004****NOTE A – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
Continued****Assets, Liabilities and Net Assets or Equity – Continued****Capital Assets**

Capital assets, which include property, plant equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

GASB No. 34 requires the Town to report and depreciate capital assets, including infrastructure. Prior years' depreciation on the roads is \$2,276,450 and is included in the 2004 beginning balance of accumulated depreciation.

The Town's capital assets are depreciated using the straight-line method over the following estimated lives:

Buildings	20 to 50 Years
Improvements	10 to 20 Years
Infrastructure	10 to 20 Years
Equipment	5 to 15 Years
Vehicles	5 to 10 Years

The Enterprise Fund records depreciation using the straight-line method over the following estimated useful lives of the assets:

Infrastructure	25 to 50 Years
Machinery and Equipment	5 to 15 Years
Water and Sewer System	5 to 50 Years
Vehicles	5 to 10 Years

-Continued-

TOWN OF CENTREVILLE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

**NOTE A – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
Continued**

Compensated Absences

Permanent full-time and permanent part-time employees are granted vacation benefits in varying amounts up to specified maximums depending on tenure with the Town. The estimated current portion of the liability for vested vacation benefits attributable to the Town's governmental funds is recorded as an expenditure and liability in the respective funds. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations placed on their use through external restrictions imposed by grantors or laws or regulations of other governments.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Property Tax Calendar

In accordance with Maryland law the Town operates on a fiscal year of July – June. At least 32 days prior to July 1 of each year the Commissioners adopt a budget which establishes the property tax levy for the coming year. Tax bills are due and payable on July 1 and are considered in arrears on the following October 1. Property on which the taxes remain unpaid on the following January 1 is sold at public auction by Queen Anne's County in the manner prescribed by State Law.

Budgetary Control

Prior to the beginning of each fiscal year the Commissioners consider and adopt an annual budget. The budget provides a complete financial plan in that it contains estimated revenues and proposed expenditures adopted on a basis consistent with generally accepted accounting principles. The estimated revenues must equal or exceed the proposed expenditures and actual expenditures cannot exceed those contained in the budget. Unexpended appropriations lapse at each fiscal year end. The budget is amended if needed during a fiscal year to reflect additional spending approved by the council. The budget amounts shown in the financial statements are from the original budget that was adopted by the Town Commissioners May 15, 2003. There were no amended budgets in the current year.

TOWN OF CENTREVILLE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE B – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Formal budgetary integration is employed as a management control device during the year for the General Fund and Capital Projects Fund. Annual operating budgets are adopted by ordinances and resolutions passed by the Town Council for those funds. Special revenue funds do not have an annual operating budget adopted by the Town Council. Budgets are prepared on the same basis of accounting used for financial reporting purposes. The Town does not integrate the use of encumbrance accounting in any of its funds. The original budgets and revisions are authorized at the department level by the Town Council.

The Department Manager has the authority to apply amounts within the departments, so long as the total appropriation for a department is not adjusted. Budget amounts reflected in the financial statements are as originally adopted. All appropriations, which are non-capital in nature, lapse at year-end to the extent that they have not been fully expended.

NOTE C – CASH AND CASH EQUIVALENTS

The Town's cash and equivalents are categorized into three categories of credit risk: Category 1 includes deposits that are insured or registered, or for securities held by the Town or its safekeeping agent in the Town's name; Category 2 includes uninsured deposits with securities held by the counterparty's trust department or safekeeping agent in the Town's name; Category 3 includes uninsured deposits with securities held by the counterparty, or by its trust department or safekeeping agent, but not in the Town's name.

The Town's authority to invest surplus cash is derived directly from state law. That law restricts investment to:

- Deposits in financial institutions insured by the Federal Deposit Insurance Corporation,
- U.S. Treasury and Agency securities,
- Collateralized repurchase agreements,
- Guaranteed bankers acceptances, and
- The Maryland Local Government Investment Pool.

As of June 30, 2004, the Town's cash deposits with financial institutions, totaled \$4,453,415 of which \$100,000 was covered by Federal Depository Insurance. The remaining \$4,353,415 was collateralized by local municipal bonds held by the bank's agent and pledged to the Town's accounts.

All highly liquid investments with an original maturity of three months or less are considered to be equivalent to cash.

TOWN OF CENTREVILLE, MARYLAND**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2004****NOTE D – INVESTMENTS**

The Town's Investment Fund is the only fund which invests in marketable securities. The carrying amount of these securities is fair market value.

Town Charter provisions restrict fund investments to:

- 1) Direct obligations of, or obligations insured or guaranteed by, the United States of America.
- 2) Bonds, debentures, notes or other evidences of indebtedness issued by any of the following agencies:

Bank of Cooperatives
Federal Intermediate Credit Banks
Federal Home Loan Bank System
Export-Import Bank of the United States
Federal Land Banks
Government National Mortgage Association
Tennessee Valley Authority
Washington Metropolitan Area Transit Authority

- 3) Time deposits or certificates of deposit secured by obligations described in (1) or (2) above.

Investments are classified as to credit risk by the three categories described below:

Category 1 – Insured or registered, or securities held by the Town or its agent in Town's name.

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Town's name.

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Town's name.

	<u>JUNE 30, 2004</u>		
	<u>CATEGORY 1</u>	<u>CATEGORY 2</u>	<u>CATEGORY 3</u>
Governmental Activities	\$ 964,774	\$ -	\$ 2,865,628
Business-Type Activities	<u>116,997</u>	<u>-</u>	<u>-</u>
<i>TOTALS</i>	<u>\$ 1,081,771</u>	<u>\$ -</u>	<u>\$ 2,865,628</u>

TOWN OF CENTREVILLE, MARYLAND**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2004****NOTE E – DUE FROM OTHER GOVERNMENTS**

At June 30, 2004, due from other governments, a component of taxes receivable, is summarized as follows:

General Fund:	
State of Maryland	
Highway User Tax	\$ 41,530
Income Tax	<u>19,231</u>
<i>TOTAL DUE FROM OTHER GOVERNMENTS</i>	<u>\$ 60,761</u>

NOTE F – RISK MANAGEMENT

The Town has identified various areas where it is at risk of loss during the normal course of business. Those areas include property damage or destruction, general liability, employee dishonesty, worker's compensation, etc. It is the Town's policy to eliminate the risk of loss in those areas through the purchase of commercial insurance.

There were no significant reductions in insurance coverage during fiscal year 2004. Settlement amounts have not exceeded insurance coverage for the current or four prior years.

NOTE G – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

	<u>BEGINNING BALANCES (RESTATED)</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCES</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 139,425	\$ -	\$ -	\$ 139,425
<i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	2,605,639	548,778	14,856	3,139,561
Equipment	<u>1,392,442</u>	<u>75,554</u>	<u>918,671</u>	<u>549,325</u>
<i>Total Capital Assets Being Depreciated</i>	<u>3,998,081</u>	<u>624,332</u>	<u>933,527</u>	<u>3,688,886</u>
<i>Less Accumulated Depreciation for:</i>				
Buildings and Improvements	2,100,487	40,855	2,724	2,138,618
Equipment	<u>175,964</u>	<u>53,091</u>	<u>-</u>	<u>229,055</u>
<i>Total Accumulated Depreciation</i>	<u>2,276,451</u>	<u>93,946</u>	<u>2,724</u>	<u>2,367,673</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>1,721,630</u>	<u>530,386</u>	<u>930,803</u>	<u>1,321,213</u>
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$1,861,055</u>	<u>\$ 530,386</u>	<u>\$ 930,803</u>	<u>\$ 1,460,638</u>

-Continued-

TOWN OF CENTREVILLE, MARYLAND**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2004****NOTE G – CAPITAL ASSETS – Continued****BUSINESS-TYPE ACTIVITIES***Capital Assets Not Being Depreciated:*

Land	<u>\$1,160,863</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,160,863</u>
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Capital Assets Being Depreciated:

Land Improvements, Buildings and Improvements	3,979,964	201,406	-	4,181,370
Equipment and Other	140,290	27,592	-	167,882
Construction in Progress	<u>234,206</u>	<u>7,268,305</u>	<u>201,406</u>	<u>7,301,105</u>

Total Capital Assets Being Depreciated

	<u>4,354,460</u>	<u>7,497,303</u>	<u>201,406</u>	<u>11,650,357</u>
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Less Accumulated Depreciation for:

Land Improvements, Buildings and Improvements	1,362,502	93,894	-	1,456,396
Equipment and Other	<u>121,592</u>	<u>7,542</u>	<u>-</u>	<u>129,134</u>

Total Accumulated Depreciation

	<u>1,484,094</u>	<u>101,436</u>	<u>-</u>	<u>1,585,530</u>
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Total Capital Assets Being Depreciated, Net

	<u>2,870,366</u>	<u>7,395,867</u>	<u>201,406</u>	<u>10,064,827</u>
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BUSINESS-TYPE ACTIVITIES

<i>CAPITAL ASSETS, NET</i>	<u>\$4,031,229</u>	<u>\$7,395,867</u>	<u>\$ 201,406</u>	<u>\$11,225,690</u>
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General Government	\$ 6,708
Public Safety	26,752
Public Works	50,138
Parks and Recreation	<u>10,348</u>

<i>Total Depreciation Expense – Governmental Activities</i>	<u>\$ 93,946</u>
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Business-Type Activities:

Sewer	\$ 43,223
Water	<u>58,213</u>

<i>Total Depreciation Expense – Business-Type Activities</i>	<u>\$ 101,436</u>
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NOTE H – CONTINGENT LIABILITIES

The Town is the recipient of several state-shared taxes, specifically Highway User. These programs are subject to audit and retroactive adjustment which could result in reimbursement to the State.

TOWN OF CENTREVILLE, MARYLAND**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2004****NOTE I – LONG-TERM LIABILITIES**

The Town has incurred debt to provide funds for the acquisition, construction and improvement of its infrastructure and water and sewer systems. That debt takes the form of bonds and notes payable to the State of Maryland and the United States Department of Agriculture. General obligation debt is backed by the full faith and credit of the Town.

BUSINESS-TYPE ACTIVITIES

Bond Payable, Water Quality Bond, Series 2002,
Interest at 1.2%, Payable in Annual Installments
Beginning February 1, 2003. Interest Paid on the
Unpaid Principal Amounts Advanced Under the Loan
Agreement Started on Feb. 1, 2003 and Semi-
Annually Thereafter on the First Day of August and
February Each Year Through February, 2023.
Maximum Amount of Loan Commitment is \$3,900,000.
An annual fee of \$11,048 is paid by the Town to MDE
For administering the loan. \$ 1,504,044

Loan Payable, United States Department of
Agriculture, Rural Development Loan; Interest at
4.25%; Payable on a Quarterly Basis Beginning
December 27, 2003; Due September 29, 2043 1,058,175

GOVERNMENTAL ACTIVITIES

Note Payable Centreville National Bank;
Interest at 3.57% Due June, 2008, Unsecured 40,715

TOTAL **\$ 2,602,934**

Long-term debt service requirements to maturity are summarized as follows:

<u>YEAR ENDED</u> <u>JUNE 30,</u>	<u>GOVERNMENTAL ACTIVITIES</u>		<u>BUSINESS-TYPE ACTIVITIES</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2004	\$ 9,641	\$ 1,307	\$ 251,443	\$ 62,866
2005	9,994	954	256,880	59,513
2006	10,360	588	262,422	56,080
2007	10,720	209	268,070	52,567
2008	-	-	273,829	48,969
2009 - 2023	-	-	1,249,575	904,466

TOWN OF CENTREVILLE, MARYLAND**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2004****NOTE I – LONG-TERM LIABILITIES – Continued**

The following is a summary of changes in long-term liabilities of the Town for the year ended June 30, 2004:

	<u>WATER AND SEWER FUND</u>	<u>GENERAL LONG-TERM DEBT</u>	<u>COMPENSATED ABSENCES</u>	<u>TOTAL</u>
Notes and Bonds Payable at Beginning of Year	\$ 684,062	\$ 50,000	\$ 16,395	\$ 750,457
Increases	2,059,980	-	-	2,059,980
Decreases	<u>181,821</u>	<u>9,285</u>	<u>6,784</u>	<u>197,890</u>
Notes and Bonds Payable at End of Year	<u>\$2,562,219</u>	<u>\$ 40,715</u>	<u>\$ 9,611</u>	<u>\$2,612,547</u>

The interest was \$37,662 and \$1,665 for the Business-Type and the Governmental Activities, respectively, for 2004.

NOTE J – COMMITMENTS AND CONTINGENCIES**Construction Projects**

During fiscal year 2003, the Town awarded the bids for three construction projects. Together the projects will expand and renovate the Wastewater Treatment Plant (WWTP) and related facilities. Total project cost was estimated to be approximately \$7,500,000. Financing will be provided by a \$3.9 million dollar bond, a Maryland Department of the Environment Grant of approximately \$1,450,000, and local resources including allocation or impact fees charged to residential developers. The WWTP was near completion at the end of fiscal year 2004.

The State of Maryland Grant includes provisions which require the Town to upgrade its Wastewater Treatment Plant with equipment designed to remove nitrogen from its effluent.

Public Works Agreements

The Town of Centreville has entered into several Public Works Agreements (PWA's) with developers for projects within the Town. Approximately 1,500 to 2,000 single family dwelling units in three locations are allocated sewer and water services. These allocations are granted from both existing facilities and the new or expanded wastewater treatment facilities construction projects. In each case, developers have paid fees to reserve capacity.

TOWN OF CENTREVILLE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE J – COMMITMENTS AND CONTINGENCIES – Continued

Public Works Agreements – Continued

To ensure that the developers associated with the PWA's satisfy their obligations under their respective agreements, the Town required the issuance of letters of credit for various amounts. These letters of credit remain unused and total \$7,897,000 as of June 30, 2004.

Borrowing Unit

In connection with the issuance of the \$3,900,000 Water Quality Bond, Series 2002, dated June 28, 2002, the Town of Centreville, by Charter Amendment, agreed to limit the amount of money it can borrow to an amount not to exceed twenty percent (20%) of its assessable tax base of \$170,409,550. Currently, the borrowing limit is \$34,081,910.

Legal Issues

A third party company ("contractor") was contracted by the Town to handle wastewater operations for the Town. On October 16, 2004, the Town terminated this contract on grounds alleging that the contractor had falsified records relating to the wastewater treatment facility. The Town had made a settlement offer to the contractor to resolve the matter by paying the contractor its fee for two months under its contract. That offer was rejected. The contractor contends that it did not violate the contract and that the Town falsified records are defamatory. The potential liability of the Town under the contract would be \$18,000. It is impossible, at this point, to speculate the liability that the contractor would incur under its defamation claim. The Town does not believe that it defamed the contractor because it had substantial grounds for terminating the contract.

The Town is a defendant in an administrative proceeding before the United States Department of Labor filed by one of its former employees. The Department of Labor has made an initial finding that the Town did not violate any statutes in terminating the employment of the former employee. The Town believes the suit is completely without merit and intends to vigorously defend its position.

Symphony Village is a development in the Town of Centreville. It was originally developed by Odin Development, LLC. It consists of 395 residential lots. It is subject to a Public Works Agreement. The developer and builder, Caruso Builders, Inc. and Waterford Centreville, LLC have asserted that the Town's Capacity Management Plan for its wastewater sewer treatment facility represents a violation of its Public Works Agreement. A lawsuit filed in the Circuit Court for Queen Anne's County, Maryland against the Town of Centreville seeks specific performance of Waterford's alleged rights under its Public Works Agreement. The Town intends to vigorously defend any claims. The Town believes that the sewer allocation to Symphony Village is consistent with the build out contemplated by its Public Works Agreement.

TOWN OF CENTREVILLE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE J – COMMITMENTS AND CONTINGENCIES – Continued

Legal Issues – Continued

Northbrook is a subdivision consisting of 437 residential lots and is also subject to a Public Works Agreement. Northbrook has asserted that its Public Works Agreement guarantees it the next one hundred sewer allocations that the Town issues. Northbrook filed suit seeking a declaratory judgment as to Northbrook's rights under the Capacity Management Plan in light of a Public Works Agreement that it has with the Town. It also seeks injunctive relief and monetary relief for the Town's alleged breach of its Public Works Agreement. It alleges monetary damages in excess of five million dollars. The Town believes that under its Capacity Management Plan, Northbrook has been allocated a sufficient number of building permits to be consistent with its estimated build out. The Town believes that the moratorium imposed on it by the Maryland Department of the Environment sufficiently addresses any injunctive relief.

On May 6, 2004, the Town entered into a Consent Order with the Maryland Department of the Environment regarding its operation of the Wastewater Treatment Plant. The Town has attempted to comply with the terms of the Consent Order and is hopeful that no further litigation will ensue. However, the Maryland Department of the Environment has the right to bring suit against the Town if there are any violations. So far, the only apparent violation was the alleged falsification of records performed by the contractor hired by the Town to handle wastewater operations, which has been rectified. As indicated, the Town terminated the contract.

The Capacity Management Plan ("CMP") was required by Consent Order between the Town and the Maryland Department of the Environment ("MDE") by which a moratorium on building was imposed. The moratorium will not be lifted until such time as MDE approves the Town's CMP. The CMP distinguishes between those lots that are subject to PWAs and those that are not. The Town believes that the time the parties entered into their PWAs, they did so subject to the rights of MDE to intervene in the Town's operation of its wastewater treatment facility and, therefore, the CMP does not violate any applicable state and local laws. Nor does the Town believe that the CMP violates any PWA. The Town intends to defend these matters vigorously.

NOTE K – RELATED PARTY

McCrone, Inc., of which Mike Whitehill, Town Council President for a portion of the 2004 fiscal year, serves as Vice President, drafted the plans for the Front Street Improvement Project, a project not bid out in the newspaper. In 2003, McCrone, Inc. provided the Town with services under the Watershed Restoration Grant from the State. McCrone was paid \$23,576 in the prior year for the research and analysis performed. The total grant was approximately \$40,000.

TOWN OF CENTREVILLE, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE L – PENSION PLAN

The Town sponsors a defined contribution plan administered by Wealth Asset Management (previously called Oxford Capital Management) and is required to contribute 5% of earned income for eligible employees. Employees must be employed for one year before they are eligible for the plan. During the fiscal year ended June 30, 2004, seventeen employees participated in the plan. Participants are 100 percent vested after three years' participation in the plan. The pension expense was \$23,077 in 2004 and \$33,851 in 2003.

NOTE M – SUBSEQUENT EVENTS

Two lawsuits have been filed in the Circuit Court for Queen Anne's County, Maryland against the Town of Centreville with regard to the Town's proposed Capacity Management Plan for wastewater treatment. See Note J for additional information.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CENTREVILLE, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND – FUND 1 ONLY
FOR THE YEAR ENDED JUNE 30, 2004

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>
REVENUES		
Revenue From Local Sources		
General property taxes:		
Real property taxes	\$ 672,009	\$ 813,998
Personal property taxes	20,000	50,841
Penalties and interest – delinquent taxes	<u>250</u>	<u>9,142</u>
<i>Total General Property Taxes</i>	692,259	873,981
Local income taxes	<u>95,000</u>	<u>152,186</u>
<i>Total Taxes</i>	<u>787,259</u>	<u>1,026,167</u>
Permits and licenses:		
Trader's licenses	4,000	8,417
Building permits	22,000	130,495
Amusement permits	250	2,130
Cable television franchise fees	7,000	6,414
Permits and other licenses	<u>600</u>	<u>2,534</u>
<i>Total Permits And Licenses</i>	<u>33,850</u>	<u>149,990</u>
Charges for services:		
General government	38,800	265,392
Public safety	100	445
Sanitation and waste removal	<u>47,000</u>	<u>41,179</u>
<i>Total Charges for Services</i>	<u>85,900</u>	<u>307,016</u>
Miscellaneous revenue	<u>50,350</u>	<u>76,389</u>
<i>Total Revenue From Local Sources</i>	<u>957,359</u>	<u>1,559,562</u>

TOWN OF CENTREVILLE, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – Continued
GENERAL FUND – FUND 1 ONLY
FOR THE YEAR ENDED JUNE 30, 2004

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>
Revenue from intergovernmental		
State:		
Police protection	54,400	98,930
Highway user taxes	153,000	186,865
Grants	<u>750</u>	<u>32,420</u>
<i>Total State</i>	<u>208,150</u>	<u>318,215</u>
County:		
Payments in lieu of taxes	97,000	109,817
Other	<u>3,100</u>	<u>112</u>
<i>Total County</i>	<u>100,100</u>	<u>109,929</u>
<i>Total Revenue from Intergovernmental</i>	<u>308,250</u>	<u>428,144</u>
<i>TOTAL REVENUES</i>	<u>1,265,609</u>	<u>1,987,706</u>
<u>EXPENDITURES</u>		
General government administration		
Legislative	23,715	25,658
Elected executive	22,090	17,424
Elections	715	769
Legal	18,300	32,359
Planning and zoning	37,815	155,618
General services	<u>175,182</u>	<u>193,464</u>
<i>Total General Government Administration</i>	<u>277,817</u>	<u>425,292</u>
Public safety		
Police	506,696	497,087
Volunteer fire and rescue services	<u>15,000</u>	<u>13,098</u>
<i>Total Public Safety</i>	<u>521,696</u>	<u>510,185</u>

TOWN OF CENTREVILLE, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – Continued
GENERAL FUND – FUND 1 ONLY
FOR THE YEAR ENDED JUNE 30, 2004

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>
EXPENDITURES – Continued		
Public works		
Landfill	112,625	163,783
Highways and streets	<u>301,862</u>	<u>269,211</u>
<i>Total Public Works</i>	<u>414,487</u>	<u>432,994</u>
Parks, recreation and cultural	<u>32,577</u>	<u>28,818</u>
Public Cemetery	<u>41,502</u>	<u>30,881</u>
Capital Outlay	<u>-</u>	<u>615,779</u>
Debt service		
Principal	-	10,196
Interest	<u>-</u>	<u>1,665</u>
<i>Total Debt Service</i>	<u>-</u>	<u>11,861</u>
TOTAL EXPENDITURES	<u>1,288,079</u>	<u>2,055,810</u>
EXCESS OF EXPENDITURES OVER REVENUES BEFORE OTHER FINANCING SOURCES	(22,470)	(68,104)
<u>OTHER FINANCING SOURCES</u>		
Operating transfers in	<u>-</u>	<u>116,786</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(22,470)	48,682
UNAPPROPRIATED FUND BALANCE, BEGINNING	<u>1,767,514</u>	<u>1,767,514</u>
UNAPPROPRIATED FUND BALANCE, ENDING	<u><u>\$ 1,745,044</u></u>	<u><u>\$ 1,816,196</u></u>

OTHER FINANCIAL INFORMATION

TOWN OF CENTREVILLE, MARYLAND
COMBINING BALANCE SHEET – GENERAL FUND
JUNE 30, 2004

	<u>GENERAL FUND 1</u>	<u>REVOLVING HOUSING FUND</u>	<u>PERPETUAL CARE FUND</u>	<u>TOTAL GENERAL FUND</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,394,910	\$ 26,637	\$ 52,194	\$ 1,473,741
Investments	-	-	89,702	89,702
Receivables:				
Taxes, net	249,719	-	-	249,719
Accounts	46,210	-	1,892	48,102
Notes receivable	-	183,308	-	183,308
Due from other funds	<u>242,612</u>	<u>11,120</u>	<u>1,417</u>	<u>255,149</u>
<i>TOTAL ASSETS</i>	<u>\$ 1,933,451</u>	<u>\$ 221,065</u>	<u>\$ 145,205</u>	<u>\$ 2,299,721</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 90,490	\$ -	\$ -	\$ 90,490
Accrued payroll	<u>26,765</u>	<u>-</u>	<u>-</u>	<u>26,765</u>
<i>Total Liabilities</i>	<u>117,255</u>	<u>-</u>	<u>-</u>	<u>117,255</u>
<u>FUND EQUITY</u>				
Fund Balances:				
Reserved for fund purposes	-	221,065	145,205	366,270
Unreserved	<u>1,816,196</u>	<u>-</u>	<u>-</u>	<u>1,816,196</u>
<i>Total Fund Equity</i>	<u>1,816,196</u>	<u>221,065</u>	<u>145,205</u>	<u>2,182,466</u>
<i>TOTAL LIABILITIES AND FUND EQUITY</i>	<u>\$ 1,933,451</u>	<u>\$ 221,065</u>	<u>\$ 145,205</u>	<u>\$ 2,299,721</u>

TOWN OF CENTREVILLE, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	<u>GENERAL FUND 1</u>	<u>REVOLVING HOUSING FUND</u>	<u>PERPETUAL CARE FUND</u>	<u>TOTAL GENERAL FUND</u>
Revenues				
General property taxes	\$ 873,981	\$ -	\$ -	\$ 873,981
Other local taxes	152,186	-	-	152,186
Permits and licenses	149,990	-	-	149,990
Charges for services	307,016	-	-	307,016
Intergovernmental	428,144	-	-	428,144
Miscellaneous	<u>76,389</u>	<u>299</u>	<u>3,394</u>	<u>80,082</u>
<i>Total Revenues</i>	<u>1,987,706</u>	<u>299</u>	<u>3,394</u>	<u>1,991,399</u>
Expenditures				
Current:				
General government and				
Administration	425,292	30	-	425,322
Public safety	510,185	-	-	510,185
Public works	432,994	-	-	432,994
Parks and recreation	28,818	-	-	28,818
Public cemetery	30,881	-	855	31,736
Capital outlay	615,779	-	-	615,779
Debt Service:				
Principal	10,196	-	-	10,196
Interest	<u>1,665</u>	<u>-</u>	<u>-</u>	<u>1,665</u>
<i>Total Expenditures</i>	<u>2,055,810</u>	<u>30</u>	<u>855</u>	<u>2,056,695</u>
<i>Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources</i>	(68,104)	269	2,539	(65,296)
Other Financing Sources				
Operating transfers	<u>116,786</u>	<u>-</u>	<u>-</u>	<u>116,786</u>
<i>Excess of Revenues and Other Financing Sources Over Expenditures</i>	48,682	269	2,539	51,490
Fund Balances at Beginning of Year	<u>1,767,514</u>	<u>220,796</u>	<u>142,666</u>	<u>2,130,976</u>
Fund Balances at End of Year	<u>\$ 1,816,196</u>	<u>\$ 221,065</u>	<u>\$ 145,205</u>	<u>\$ 2,182,466</u>

OMB CIRCULAR A-133

SUPPLEMENTARY FINANCIAL REPORT

December 16, 2004

The Honorable Town Commissioners
Town of Centreville
Centreville, Maryland

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the Town of Centreville, Maryland with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The Town of Centreville's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contractors, and grants applicable to each of its major federal programs is the responsibility of the Town of Centreville's management. Our responsibility is to express an opinion on the Town of Centreville's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Centreville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town of Centreville's compliance with those requirements.

In our opinion, the Town of Centreville complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Town of Centreville is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Centreville's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Town Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BEATTY, SATCHELL & COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF CENTREVILLE, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

	<u>FEDERAL GRANT NUMBER</u>	<u>FEDERAL GRANT REVENUE</u>	<u>EXPENDITURES</u>
<u>DEPARTMENT OF AGRICULTURE</u>			
U.S. Department of Agriculture Rural Utilities Service – Water and Waste Disposal Systems for Rural Communities	10.760	<u>\$ 775,124</u>	<u>\$ 4,477,126</u>

TOWN OF CENTREVILLE, MARYLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2004

NOTE A – SCOPE OF AUDIT PURSUANT TO OMB CIRCULAR A-133

All federal award programs operated by the Town of Centreville, Maryland, are included in the scope of the OMB Circular A-133 audit. The single audit was conducted in accordance with the provisions of OMB Circular A-133 and the OMB A-133 Compliance Supplement. Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the following major federal award program.

<u>Program Description</u>	<u>CFDA Number</u>	<u>Fiscal Year 2004 Expenditures</u>
Water and Waste Disposal Systems for Rural Communities	10.760	\$ <u>4,477,126</u>

The United States Department of Agriculture Rural Development office has been designated as the cognizant agency for the OMB Circular A-133 audit.

NOTE B – FISCAL YEAR AUDITED

Single audit testing procedures were performed for program transactions occurring during the fiscal year ended June 30, 2004.

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes all federal grants of the Town which had financial activity during the fiscal year 2004. This schedule has been prepared in accordance with accounting principles generally accepted in the United States of America.

TOWN OF CENTREVILLE, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

SUMMARY OF AUDITORS' FINDINGS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Town of Centreville, Maryland for the year ended June 30, 2004.
2. The audit disclosed four (4) reportable conditions in internal control. One of the conditions is reported as a material weakness.
3. The audit did not disclose any noncompliance which would be material to the financial statements of the Town.
4. The audit did not disclose any reportable conditions in internal control over major programs.
5. An unqualified report was issued on compliance for major programs for the Town of Centreville, Maryland for the year ended June 30, 2004.
6. There are no audit findings relative to the major federal award programs for the Town of Centreville as defined in Sub-Section .510(a) of OMB Circular A-133.
7. The programs tested as major programs included: Water and Waste Disposal Systems for Rural Communities, CFDA No. 10.760.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Town of Centreville qualified as a low-risk auditee for the year ended June 30, 2004.

FINDINGS RELATING TO THE FINANCIAL STATEMENTS

The attached addendum reports the reportable conditions in internal control.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None disclosed.

REPORTABLE CONDITIONS

MATERIAL WEAKNESS

Finding # 1 – Development Fee Billings

During the course of the audit, the permit process was discussed with Town employees and testing was performed. Through the process of our testing and inquiries, it became evident to us that the process of collecting and assessing permit fees by the Town has been a challenge. We believe that there are significant opportunities to strengthen controls, implement enhanced procedures, and improve the financial condition of the Town of Centreville.

The Town performed a comprehensive review of permit fees to evaluate, per permit, the fees that should have been collected and the fees that remain uncollected and outstanding. Since completing our fieldwork, some of the following procedures may have been implemented; however, as they were not implemented during the period under audit, we are compelled to recommend the following changes to the permit process:

- Third parties need to be required to deposit escrow funds with the Town at the time of permit and site plan submission. Prior to submitting plans to URS for review, the Town Clerk needs to sign off that escrow funds have been received and that the plans are ready for review. These escrowed funds will ensure the Town does not absorb review costs from URS if a third party decides not to pursue development plans with the Town. The front desk employees should be responsible for the collection of these funds at initial submission from the third party.
- Designate an employee to create and maintain a schedule to track non-residential users with estimated allocation fees (social services building, community center) at time of permit application. After establishing history of usage (several quarters), the accounts should be reviewed to determine if the Town can “back bill” the customer if usage is consistently greater than estimated.
- Establish policy regarding the calculation of allocations for non-residential properties to prevent subjective calculations. The calculation should be attached to the permit.
- During fieldwork, it was noted that an electronic schedule of permits had been started to track permit applications and the collected related fees. It is suggested that one Town employee be responsible for updating this list on a daily basis for current transactions. Compiling one list, accessible to all office employees, will allow users to instantly determine fees paid and unpaid when permits are issued. This should assist the Town in collecting all fees prior to permit issuance. Completing the schedule on a timely basis will be crucial.
- Update the Council on a regular basis as to the number of allocations granted and remaining.
- Update the Council on a regular basis as to the allocation fees collected, any collection issues, and the outstanding allocations.
- Prenumbered permits should be used to ensure the tracking of permits issued.
- A policy should be established to identify the criteria for waived fees.
- A procedure to ensure efficient and timely billing of fees needs to be established and followed. The performance of testing revealed unbilled receivables that were months to years old. Establishing a timely billing procedure will increase cash flow for the Town and improve the probability of full payment by the third party.

OTHER REPORTABLE CONDITIONS

Finding #2 – Formal Policy Documentation

During the audit, the lack of formal policies and lack of formal approvals of various items were noted. It is suggested that the Town Council and Town management establish policies on the following matters to ensure official approvals occur and are documented in the Town minutes. The implementation of monitoring controls will decrease the Town's susceptibility to fraudulent activities.

- Establish policy to require the Town Manager to approve all journal entries and review all appropriate supporting documentation.
- Establish policy to require the Town Manager to review bank reconciliations on a timely basis and inquire of any unusual items noted within the reconciliation.
- The Town Council should officially approve the closing of any and all Town bank accounts.
- The Town Council should officially approve any and all bonuses to Town employees, including any contributions made to 457(b) plans.
- Establish more guidelines related to the medical expense bank account. The adoption and structure of GASB Statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions in 2009 will establish requirements the Town will need to comply with.
- Establish policy on posting deposits to water and sewer accounts on a timely basis. The Town has not had the ability to determine the timing of fees paid and therefore, lacks the ability to impose late fees.
- Purchase orders (P.O.) should require sign off by both the department head and Town manager. There were two P.O.'s noted during testing that had the previous Town manager's signature creating the P.O. and approving it as department head and Town manager. To ensure segregation of duties, two different signatures should be approving P.O.'s.

Finding #3 – Cash Receipts

During the cash receipts testing procedures, the following general procedure suggestions were noted to ensure an audit trail for all transactions exists:

- For voided receipts transactions, the three colored receipt forms should be attached together and marked void. (Only pink receipts were marked void in the log.)
- Cash receipt tickets should be issued for all transactions.
- When daily cash is given to the Town Clerk for depositing, total cash should equal the total accumulation of receipt slips since the last deposit. Receipt slips supporting cash received should be reviewed by the Town Clerk and confirm total receipts equals cash deposited.
- Violator's tickets should be copied if the ticket is paid before receipt of officer's copy from police department. Keep a list of these copies to match up with the police department's ticket copy. Cash payments for tickets can then be deposited timely instead of being held in a cash drawer pending receipt of police copies.
- The receipt of all cash and checks should be deposited into the next day's bank deposit. This is not occurring all of the time.

Finding #4 – Vacation, Sick, and Overtime Policies

Certain employees benefited from flex time. There was no written agreement for flex time; however, the subject employee(s) believe that the flex time was verbally approved by the Council. The Council also signed checks indicating the use of flex time. The recommended approach would be to have a written agreement regarding flex time.

The review also indicated that employees from one department were granted vacation time in a manner inconsistent with the employee manual. Unless the Council differentiates in writing between the employees of different departments, all benefits should be uniform.

The Council needs to formally approve and update the employee manual if policy changes are to be implemented to ensure all employees are treated the same. The Council may want to engage a professional human resources consultant to review the existing manual and make recommendations regarding compliance with labor laws and regulations.

TOWN OF CENTREVILLE, MARYLAND
FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND OMB CIRCULAR A-133 REPORT
JUNE 30, 2004
